Fiscal Highlights

Enhancing the State's Long-term Fiscal Health - Steven M. Allred

Representatives from the Pew Charitable Trusts recently visited Utah to present their research on policies that support and enhance states' long-term fiscal health. The representatives spoke to legislative leadership and presented in the October 20 Executive Appropriations Committee meeting. Their research shows "Utah has repeatedly emerged as a leader" in the area of long-term fiscal planning. However, they found two areas where they recommended improvements. Here is a summary of their findings:

Best Practices

"Pew recommends that states study their revenue volatility on a regular basis in order to inform reserve policy - a practice that Utah has had in place since 2009. This volatility study has been used to inform the savings targets of Utah's two main reserve funds." The Legislature passed H.B. 49, "Budget Reserve Account and Disaster Recovery Amendments" in the 2008 General Session which required the LFA and the Governor's Office to prepare a joint revenue volatility report beginning in 2011 and every three years thereafter. The last study was prepared in December of 2014 and recommended "increasing rainy day fund transfer thresholds to 9% for the General Fund Budget Reserve Account and 11% for the Education Budget Reserve Account." The recommendation was adopted in House Bill 333, 2015 G.S.

State budgets tend to be pro-cyclical, meaning they grow when the economy expands and they shrink when the economy contracts. This creates challenges for policymakers, since growing budgets in good times can lead to ongoing commitments funded with one-time revenues; when the economy declines, states may reduce spending when residents most need it, or increase taxes when residents can least afford it. In the 2014 G.S. the Legislature passed H.B. 311, "Budgeting Amendments" and HJR 11, "Joint Rules Resolution on Budget Process Amendments," both of which require the Executive Appropriations Committee to look at long term revenue trends and consider treating above-trend revenue growth as one-time revenue.

Recommendations

Pew's staff said Utah can improve volatility management in the areas of deposits into and withdrawals from the rainy day funds.

Currently most of Utah's rainy day fund deposits are made at the end of the fiscal year by depositing a percentage of the prior year surplus (25% of the surplus, plus another 25% to repay recent appropriations from the funds.) In addition to the surplus deposit, the Legislature can appropriate more funds to the rainy day funds in any amount. Pew suggested that an improved practice would be to deposit a percentage of above-trend revenue to the rainy day funds.

Regarding withdrawals, currently Utah's statute allows for withdrawals only to resolve a budget deficit, pay a settlement agreement, or pay retroactive tax refunds. An improvement in the process would be to allow withdrawals based on cyclical declines in the economy and/or state revenues.